

CITY OF EAST PERU

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

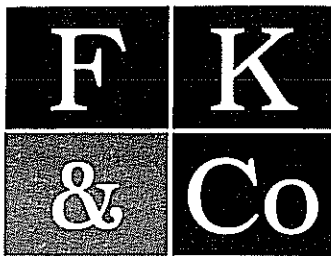
**FOR THE PERIOD
AUGUST 1, 2014 THROUGH JULY 31, 2015**

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City of East Peru
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Luke	Mayor	Jan 2018
Tonya Porter	Council Member	Jan 2018
Doris Harper	Council Member	Jan 2018
Marlin Miller	Council Member	Jan 2018
Bart Porter	Council Member	Jan 2018
Russell Dillinger	Council Member	Jan 2018
Jennifer Porter	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of East Peru for the period August 1, 2014 through July 31, 2015. The City of East Peru's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

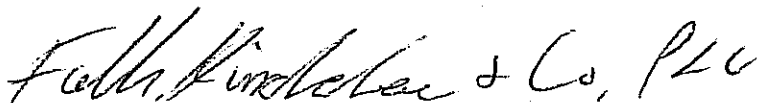
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of East Peru, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of East Peru and other parties to whom the City of East Peru may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of East Peru during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Faller, Kincheloe & Co, PLC

November 17, 2015

CITY OF EAST PERU

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Debt – recordkeeping, compliance and debt payment processing.
6. Payroll – recordkeeping, preparation and distribution.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) City Council Minutes – The following were identified:

- City Council meeting agendas were not posted as required by Chapter 21.4 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the posting of the City Council minutes to include the total disbursements from each city fund, a summary of all receipts and the reason for the claims. We noted that this requirement was not met by the City for all four meetings tested.

Recommendation – The City should comply with Chapters 21.4 and 372.13(6) of the Code of Iowa. In addition, the City should ensure all minutes and agendas are posted and that the posting of the City Council minutes include total disbursements from each city fund, a summary of all receipts and the reason for the claims, as required.

CITY OF EAST PERU

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (C) Clerk's Report – Although monthly Clerks' reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports include a budget vs actual comparison.

- (D) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

- (E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

- (G) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

CITY OF EAST PERU

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (I) Payroll – The following were identified:

- We could not locate City Council approval of the wage rates for all employees tested.
- The Mayor and City Council members are being treated as independent contractors, instead of through payroll as employees.
- The City did not prepare any IRS Forms 1099 for the year ended December 31, 2014. We noted that the City should have issued a Form 1099.
- The Mayor’s and City Council’s wages were not set by ordinance.

Recommendation – The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. In addition, the City should ensure that the Mayor and City Council members are treated as employees and paid through payroll, with all applicable taxes withheld.

Also the City should file IRS Forms 1099 when applicable. The City Council should also update the ordinance authorizing the wages for the Mayor and City Council.

CITY OF EAST PERU

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (J) City Council Disbursement Approval – The City Council approves disbursements at each monthly meeting after the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City's Annual Financial Report reported public debt does not agree with the City's records. In addition, the City did not report the correct budget amounts on the City's Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records. In addition, the City should ensure that the correct budget of the City is included on future Annual Financial Reports.